GROUP 20 (FIFTH) AND GLOBAL ISSUES AND CHALLENGES

Prof. Dr. Badar Alam Iqbal
Former Fulbright and Ford Foundation Visiting Professor
Former Dean and Chairman
Faculty of Commerce
Aligarch Muslim University
Aligarch : 202002 (UP) India

Abstract

Group 20 is a group of economies, comprising of developed and emerging economies, is a vital economic forum to deal with global issues, that the world has been facing. The Forum also provides or creates a consensus on the emerging issues that may have far reaching sequences, implications and impact on the growth and development of world economy. The group also suggests new ways and means to solve global issues and challenges. The latest meeting i.e. fifth at Seoul (South Korea) has also discussed the emerging issues namely- trade imbalances between cash-rich exporting economies and debt burdened importers and currency war due to foreign exchange rates especially between the US and China . The group has also discussed some other vital issues namely- Millennium Development Goals (MDG) and Doha Development round (DDR) affecting the growth and development of global economy. Informal gathering in China has also provided a basis and forum to developed and developing nations to discuss the critical issues formally in coming year. The present paper analyses the major issues of concern for the world and how these issues and challenges should be dealt and met by the Group-20 countries.

Key Words: Trade imbalances, Currency war, Competitive devaluation, Basel III, Tax measures, Liquidity crunch. MDG, and DDR.

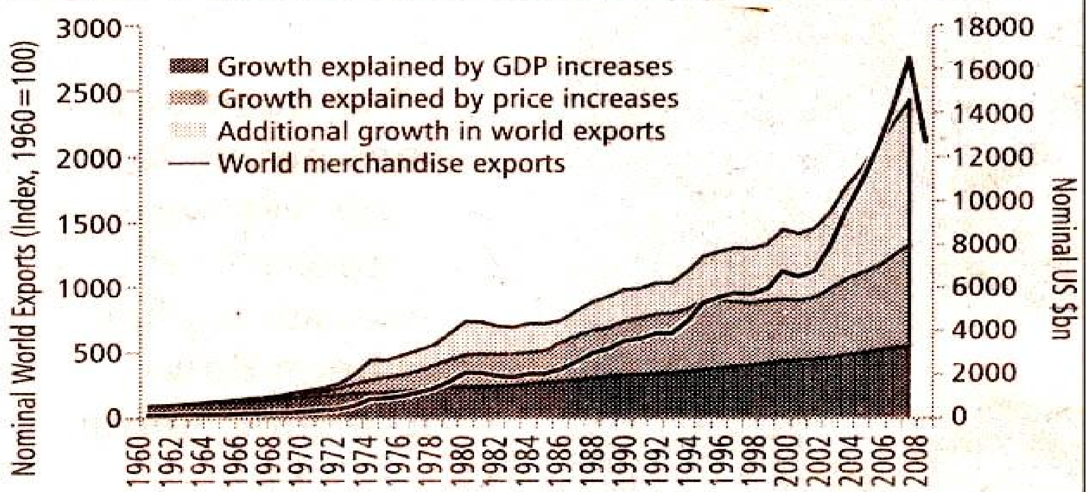
Introduction:

Since the creation of Group-20 (G-20) countries comprising of both developed economies and emerging economies has been getting opportunities to identify and discuss the major issues and challenges that the global economy has been facing. G-20 summit at Seoul is a landmark as for the first time, the same is held in the Asia-Pacific continent, which is now becoming a centre of 'gravity' for the global economy wherein the dynamic economies of India and China are contributing positively and constructively in the process of global recovery. **{1}**

Persisting Trends:

During the last fifty years, the globe has registered an exponential rise in merchandise exports. Yet, world crisis resulted in a 20-25 per cent fall in world exports in 2008-09 [Diagram 1]. The left side of the diagram indicates growth in world trade index. The bottom portion shows how much trade would have risen with GDP at constant prices or if fixed at the 1960 share of GDP. The middle portion of the diagram 1 adds in the effect of prices. The upper portion forms the additional expansion in world trade during the mentioned period shown in diagram 1, resulting into a rise in share of trade in GDP. This is true that with out this, global trade would have been 45 per cent less than that actually registered in 2008-09.

Diagram 1: **WORLDWIDE MERCHANDISE EXPORTS**



How does increase in global trade take place? The answer is lying in five contributory factors which are given below:

1. Cost advantages in large scale specialization in particular economies resulting into greater supply than internal demand.

2. Improvement in complementary technologies in communications and transport especially air, shipment and containerization; larger use of billing and tracing through increasing use of internet.

3. Reductions in trade barriers both quantitative and qualitative under WTO regime.

4. Globalization resulted into an increase in consumer demand.

5. Growing taste of higher turnover and product diversification

Diagram 2 outlines net trade trends i.e. exports – imports as percentage of total trade for selected economies. The portion above zero indicates net export sectors, whereas below zero shows net import sectors. Economic indicators for the year 1980 reveal that India and China were exporting low value added raw materials and agriculture, **{2}** with the United Kingdom and United States having the advantage in manufacturing and services. In 2008, the trend has become different. China has created a strong advantage in manufacturing and accordingly, it has come up as a net importer of raw materials, whereas India developed strong advantage in commercial services. The most noticeable trends have been that between 1980 and 2009, services have registered an appreciable rise from 15 per cent to 21 per cent.

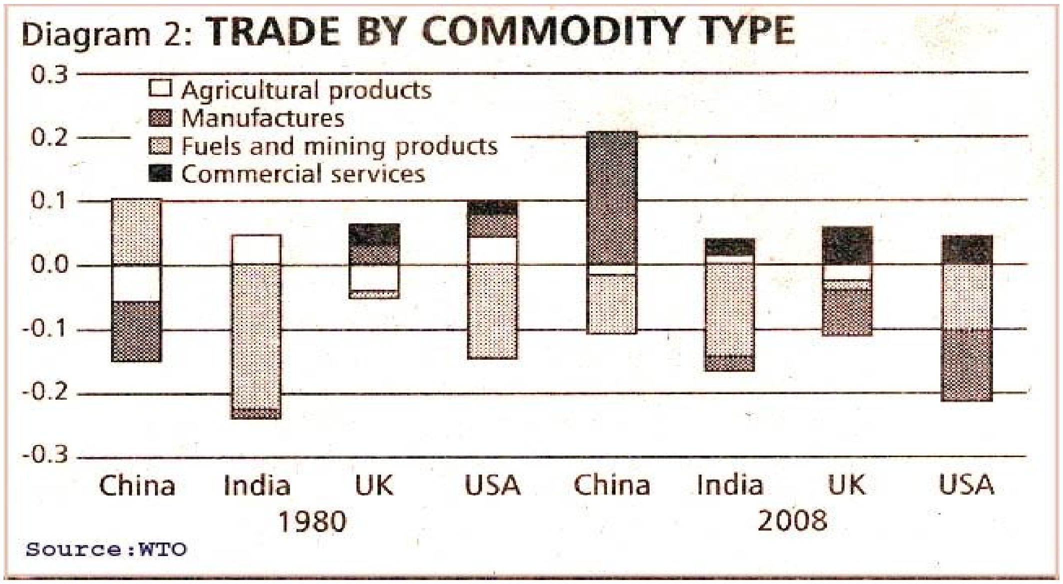
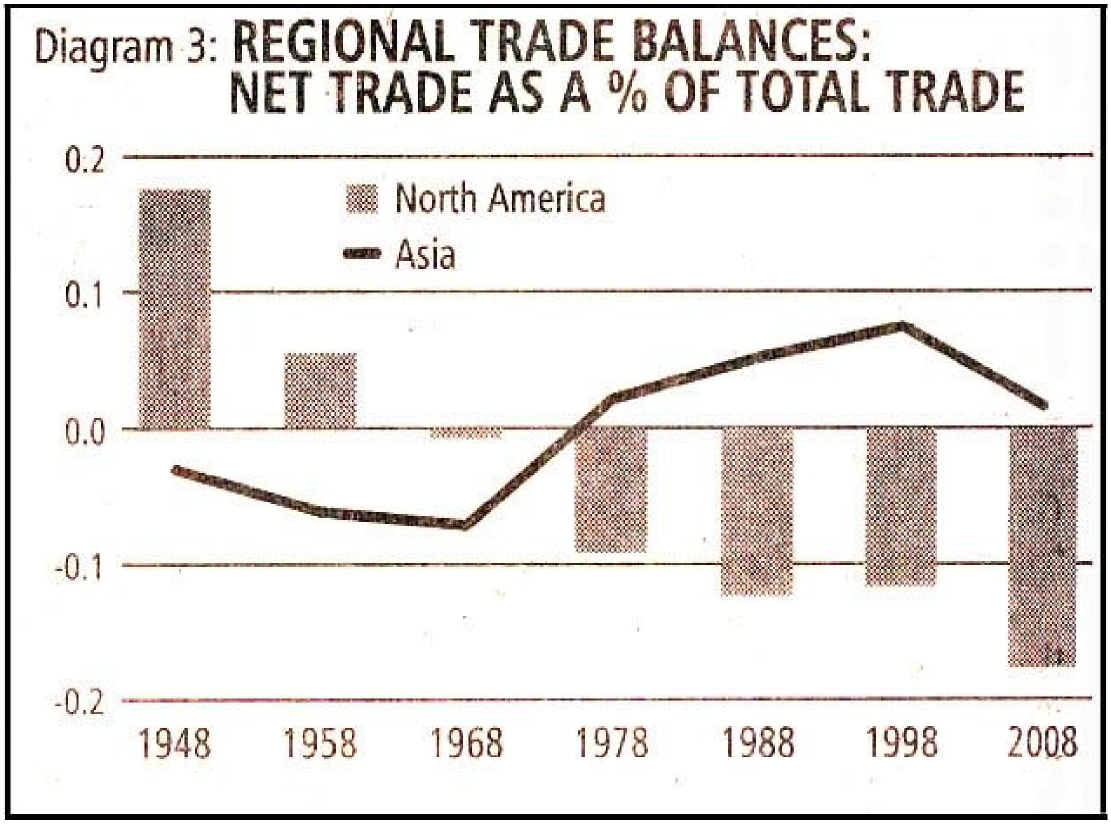


Diagram 3 indicates the changes that have been taken place in regional trade imbalances in respect of the United States and the Asia. The diagram in question shows how the US (North America) has transformed into deficit since 1968. On the other side of it, Asia has emerged as trade surplus region. The changed scenario has been due to '**global imbalances**' which is being considered as one of the most vital contributory factors for increasing need for world economic re-imbalances. **{3}**

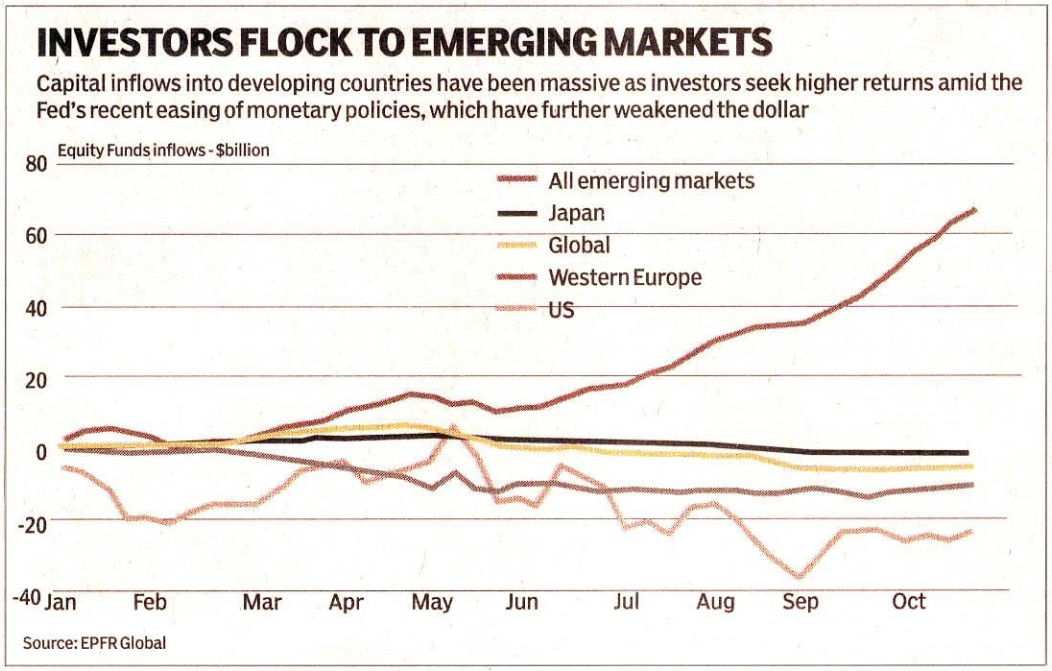


Source: WTO; Geneva

Group-20 has agreed in principle to tackle global '**tensions and vulnerabilities**' which have raised the specter of a currency war and trade protectionism. The developed and emerging economies have also agreed upon to set vague '**indicative guidelines**' for measurement of imbalances between their multi-speed economies but calling a timeout to let tempers cool, left the details to be discussed during the first half of 2011. The new guidelines would be chalked out in collaboration of the IMF and would be finalized in 2011 when the France would hold the presidency of G-20 Group.

G-20 Group is backing gradual currency moves (Diagram 4) for easing out the global tensions and vulnerabilities which is the need of the hour. The group has also

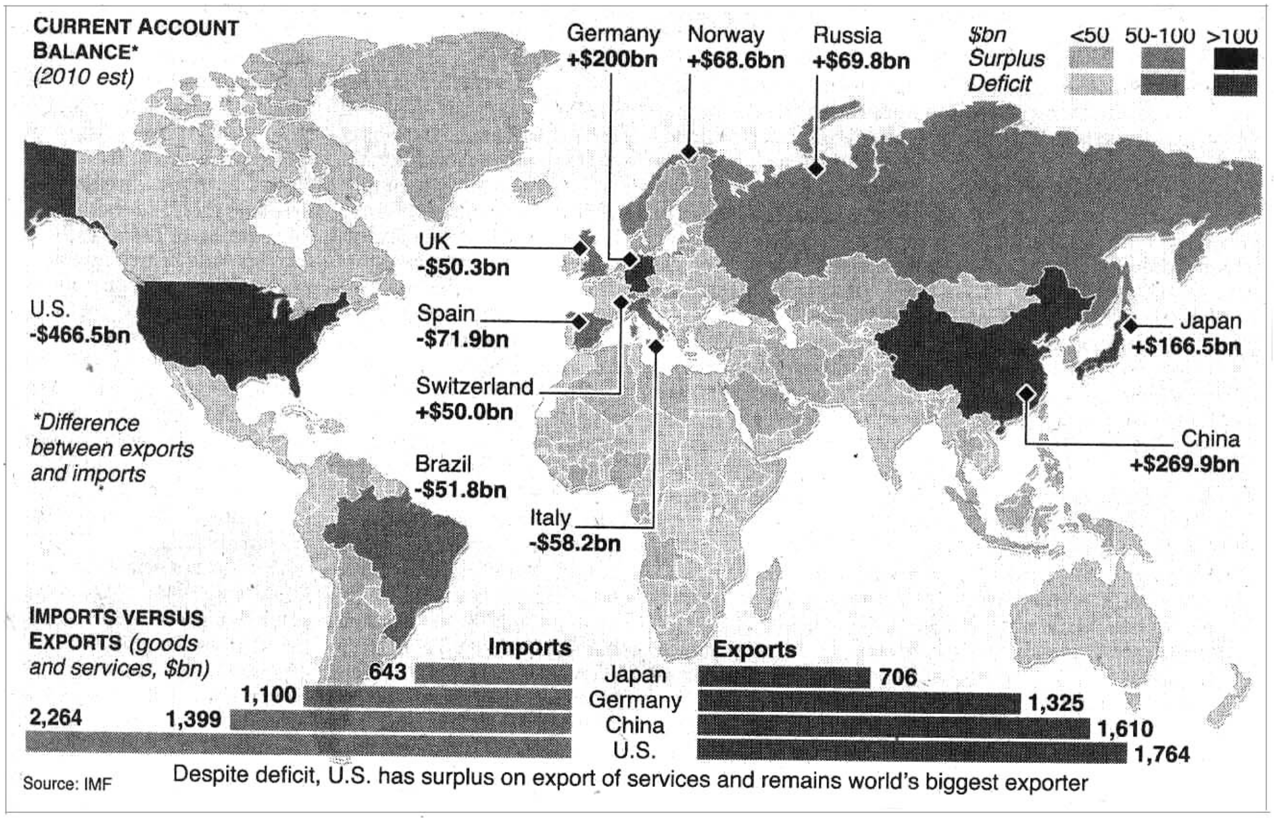
Diagram: 4



provided some nations with cover to enact capital controls to limit exchange rate swings. In circumstances where economies are facing undue response in emerging market nations with adequate reserves and increasingly overvalued flexible exchange rates may also include carefully designed macro-prudential measures**. {4}**

The reserve currency economies have special responsibility to ensure that their monetary policy does not lead to destabilize capital flows that can put pressure on emerging markets. The US dollar is the main reserve currency. Possibly referring to efforts at deficit reduction of the type the UK has begun. If this is not to have a contractionary impact of the global economy, it must be offset by reducing current account surpluses (China) that has unwarrantedly large surpluses (Diagram 5). The responsibilities of the major world fiscal profligates such as the US, advanced deficit countries must follow policies of fiscal consolidation consistent with their respective individual circumstances so as to ensure debt sustainability over medium term. {**5**} Among the G-20 economies, Germany, Russia, China, and Saudi Arabia all run in surpluses larger than 4 per cent, whereas Turkey and South Africa have deficit bigger than 4 per cent.

Diagram: 5



Major Issues to consider:

Global leaders have gathered in Seoul for Group-20 summit which aimed to safeguard the world economic recovery and also to defuse trade and currency tensions. The following were major issues that have dealt with to save globe from tensions and venerability.

Global Imbalances:

Easing out conflicts among export-rich economies and debt-laden consumer countries as early as possible. Leaders have endorsed an approach to existing imbalances and brought out consensus in respect of 'framework' for attaining balanced growth. Accordingly, they submitted a medium-term economic plan to International Monetary Fund (IMF). The IMF would conduct an analysis of the **'root causes'** of the imbalances and the damage that they have caused to concerned economies. The IMF would further assess not only exchange rates and trade flows but also variables namely- labor costs, saving rates, demographic, investment and commodities. The main aim of this exercise is to facilitate and timely identification of large imbalances that require preventive and corrective actions to be taken. **{6}**

Currencies:

Foreign exchange rates occupied center stage in Seoul summit. The United States and other economies cross the fingers at China and asked China to permit its Yuan currency to rise faster as they feel that Chinese currency is undervalued for having gain in respect of trade advantage. But the US will have a tougher time making that case when many developed and emerging economies believe that the US approach of easy money as a means to weaken the dollar.

Financial Regulations:

Global leaders considered Basel III agreement to enhance the quality and quantity of bank capital. They endorsed the idea of creating the Financial Stability Board's proposal in order to tighten supervision over-the-counter derivatives market and also to reduce the existing greater dependence on credit rating agencies.

Global Trade:

Slow growing developed economies wish to export their way to economic health that is the very cause of the existing tensions over currencies and imbalances. Leaders have agreed to avoid protectionism and go forward towards concluding the long-stalled of Doha Development Round (DDR) of trade negotiations which is strategic and vital for the survival of WTO in general and Multilateral Trading System in particular...

Diplomacy:

It is true that economic problems always dominated in the official agenda; and global leaders did find time to exchange views on diplomatic issues or diplomacy. The Seoul summit followed several weeks of conflicts between Japan and China over a chain of disputed Islands. Relations between Tokyo and Moscow have also chilled after Russian President visited part of an Island chain north of Japan. Concern was also expressed in respect of Chinese assertiveness in its monopoly over rare earth minerals needed for high-tech goods as a lever in diplomatic disputes. **{7}**Other diplomatic issues include frozen negotiations with North Korea to end its nuclear programmed and efforts by global powers to retrain Iran’s nuclear operations.

Divergence of Opinion:

There are no universally agreed upon diagnosis of what ails the global economy. India, the UK and Mexico disagreed with the view of the US that only China’s current account and capital account surpluses are responsible for world economic predicament. Seventy pages communiqué of G-20 nations is itself an indicator that there are difference of opinion on ails of world economy.

The main issue is an old one, namely, that the US and its allies do whatever they want to do and then expect others to adjust their policies accordingly. The US decision to inject

US $ 600 billion into its economy during the period of financial crisis left every one jumpy as to the consequences for their respective economies**.{8}** Brazil has already spoken out sharply against the proposal. Chinese officials are more aggressive and opined that if the '**US catches a cold it can not look for Chinese medicine**'. Keeping in mind the US proposal, the Chinese Government has taken preventive measures against capital surge by advising its banks to deposit more money with the country's central bank. Many countries of G-20 have put sand in the machine so that destabilizing dollar inflows do not cause concerns for their respective economies.

Competitive devaluation and bringing in exchange rate flexibility to ensure that no country gets undue advantage. The globe would move towards more market determined exchange rate system and enhance exchange flexibility to reflect underlying economic fundamentals and refrain from competitive devaluation of currencies. Advanced countries including those economies that have reserve currency had to be more vigilant against excess volatility and disorderly movement in exchange rates. Every one at all costs avoids competitive devaluation and resisted any resurgence of protectionism. **{9}**

Millennium Development Goals:

The G-20 leaders give a clear and strong message that attainment of MDG, narrowing development gaps and other policies to foster balanced development have to now occupy a '**central theme**' in sustaining growth in the post-crisis period. The latent potential of the poor to generate aggregate demand could be harnessed through promoting agriculture and rural development; strengthening social protection, enhancing financial inclusion, and promoting job creation among other policies within the emerging markets and among the excluded and poor countries. The poor countries need to be assisted in closing the development gaps through enhanced Overseas Development Assistance (ODA) and development financing. The potential of South-South cooperation also requires to be fully exploited in closing the development gaps**. {10}**

Two basic principles-the Soul of Summit:

G-20 summit in Seoul, two fundamental and strategic principles stand out for those who take interest directly and indirectly in the promotion of international growth and development. **{11}**

1) The concepts of fairness, balanced, and the common good have experienced a welcome renaissance as global leaders have had to remind each other of these universal principles to avoid a potentially devastating escalation of their disagreement on currency values and trade imbalances.

2) Whereas it remains to be noticed to what extent it will help to bring countries' contending economic strategies into line. This rediscovery of basic values comes just as the G-20 is beginning top include international development issues in its deliberations. Issues namely- undervalued currencies, lopsided trade statistics and skewed consumption patterns however important to them.

Outcome of the Summit:

The given below are the major and vital economic agreements that have taken place at G-20 summit at Seoul. **{12}**

a) Create more effective and efficient international cooperation.

b) Explore potential risks that are possible for world economy, and then take necessary steps to achieve shared objectives.

c) Increase concerted efforts on Mutual Assessment Process.

d) Steps must be taken to put supportive economic policies on right track for speeding up the rate of recovery and job creation.

e) Sound and strong steps must be directed towards safeguarding the stability of global financial system.

g) Efforts should be made out to enhance global demand and potential of growth.

Strategy:

The fifth summits of G-20 countries have also evolved an effective and efficient strategy. The strategy is based on the following facets:

1) Ensure an unwavering commitment to needed cooperation.

2) Propounded an action-oriented plan with each member's concrete policy adherence.

3) Total adherence on the strategic and vital issues namely- strong, sound, sustainable and balanced growth.

4) Greater emphasis on the significant and increasing role and contribution of Central Banks' in the effective implementation of monetary and exchange rate policies.

5) Reaffirming on free trade and investment policies and their effective role in the process of global economic and financial recovery.

6) Formulation and implementation of clear, credible, ambitious and growth friendly medium-term fiscal consolidation plans, keeping in mind the Toronto commitment.

7) Measures must be taken in respect of national and international level to enhance standards, and also ensure that national authorities carried out global standards that have developed to date.

8) Total adherence on bank capital and liquidity standards.

9) Create level playing field and avoid fragmentation of markets and protectionism.

10) Inculcate the desired degree of confidence and growth.

These measures may go a long way in creating desired level of global recovery on the one hand and on the other hand to have balanced trade and exchange rate policies which are sine-quo-non for the survival of global financial and trading system.

Reforms in IMF:

There has been a long pending agenda of reforms in regard to international financial architecture. The agenda included reform of International Monetary Fund (IMF) conditional ties, creation of a global reserve currency based on Special Drawing Rights (SDR), which can be issued in a country cyclical manner, and enhanced voice and quota of developing countries in general and emerging economies in particular. Bretton Wood Institutions (IMF and IBRD) were asked for addressing the democratic deficit; restore the legitimacy, effectiveness and development of the global financial system. In this direction, the United Nations (UN) and the leaders of G-8, G-20, G-77 Groups must come forward to work together to seek a better future for all countries and above all for all the people living on the earth.

The most noticeable outcome of the Fifth Summit is the ratification of changes in the governance of the IMF that would expand representation of emerging markets economies, endorsed the expansion of IMF lending programmes that could be used by countries facing a sudden liquidity crunch, and empowered the fund to spearhead the process for fixing imbalances**. {13}** The reforms have also made out in respect of shifting the voting share in favour of emerging economies namely-India and China. The net benefit to India would be the improvement in the position in terms of voting power from 22nd to 8th. **{14}**

There has been a steady progress in respect of the redistribution of quota. Further efforts are necessary in this direction. The decision to comprehensively review the quota formula by the end of 2013 shows the growing economic weight of the emerging market economies.

Emerging Challenges:

Save capitalism from protectionists is one of the formidable challenges for the world economy. The globe needs business to end the ongoing G-20 charade on promotion of trade. There is a grave risk that the global economy would collapse into a protectionist spiral and the concept of '**new regionalism**' may get momentum and the world economy again divided into regional blocks. The best preventive step is to ensure that protectionism does not happen and this could only possible when Doha Development Round (DDR) is concluded in the right spirit and direction. Since 2008 (Washington Summit) up to June 2010 at Toronto nothing concrete has been done in this regard**. {15}**

Now it is believed that 2011 is a critical window of opportunity and consequently negotiators are being asked to promptly bring DDR to successful, ambitious, comprehensive and balanced conclusion.

What is at stake is not less than the world open market system and true capitalism. The globe is at cross roads. The conclusion of DDR will ensure the single most significant boost to confidence in the system and also a great stimulus to the global economy. There is a saying that the problem of ***communism is communism, while major problem with capitalism is capitalists, that they are the agents of their own destruction***.

Another challenge is to address the reduction in unsustainable and socially unacceptable unemployment levels. **{16}**This is because of the uneven growth in the globe resulting into the risk of economies diverging from global solutions and embracing go-it-alone measures. Such uncoordinated policies and plans would not result in increased employment.

Double standards:

According to GTA the G-20 countries are still continuing to carry out protectionist policies in contrast to repeated pledges to keep markets open and developing nations have been among the main victims. According to GTA report, G-20 nations have implemented 111 measures that harm foreign commercial interest since their last summit held in June 2010 at Toronto (Canada). **{16}** The total number of harmful measures implemented by the G-20 economies during the crisis and subsequent recover has crossed 500 to reach 511. This all indicates doubts on the quality of G-20 leaders on protectionism. Prof. Evenett, one of the founders of GTA has opined that the report follows a warning by the WTO, OECD and UNCTAD that the global economy is threatened by increasing protectionism, caused in part by tension over exchange rates. **{17}** GTA has observed that since the crisis begins, 141 Government measures have hurt the traders and migrant workers of the 50 poorest Least Developed countries (LDC). **{18}**

GTA urged the G-20 group to ensure that any initiative on trade and development revised Government measures so that they do not harm the poorest economies. Otherwise the Seoul G-20 summit risks introducing yet more incoherence into trade and development policy-reviving long standing concerns that what Governments give with one hand (ODA and other support) and they take back with the other (protectionism).

Newly emerging Issues:

G-20 nations are gathering at Beijing, China for considering the necessary and strategic reforms in global finance that has become vital after facing global financial crisis. ***There are differences of opinion between developed and developing economies on monetary issues***. The stimulus oriented policies carried out by the US, Japan and European Union are responsible for the persisting inflation in commodity and assets prices.

G-20 group is challenges over whether it can foster prosperity both for poorer economies in West Asia and North America as well as more established countries in America and Europe. Group has made progress on forging tighter financial regulations to help prevent a recurrence of the meltdowns in housing markets that brought on the global financial crisis **{19}**.

France (Chaired session) has made reform of ***world monetary system a focal point along with reducing economic imbalances and volatility in commodity prices. Similarly China and other emerging economies have shown keen interest to bring necessary changes that could reduce their reliance on volatile dollar-denominated assets.***

China has also brought forward an idea in respect of use ***of Special Drawing Rights (SDR's), a quasi-currency used by the International Monetary Fund (IMF) in its dealing with member Governments, as an international reserve currency. Accordingly, China has suggested using SDRs as a substitute for the dominated US $ as the global reserve currency.***

G-20 finance chiefs appeared close to agreement on tracking dangerous imbalances in the global economy by monitoring several key indicators namely- ***current accounts, real effective exchange rates, currency reserves and public and private debt levels. T***hese issues are of tremendous important and every nation has to take it as serious issues for long term solutions **{20}**.

Conclusion:

The G-20 Group is the international Platform of relevance today and careful consideration has to be given by each member nation so that it could give and ensure that right and positive signals are sent out to the rest of the globe. It is high time that India, China and the US should take lead. A reasonable debate on whether the best way to beat the heat and crisis is austerity or spending may not yield an unequivocal answer, but protectionism certainly should not find place. The immediate need is to reaffirm its commitment to open markets and a rule-based trading system. The emerging markets should adopt a cautious approach towards capital flows. They have also to resort to capital controls to regulate potentially destabilizing capital inflows that could pose a threat to their economies and financial systems. The Seoul Development Consensus and the associated Multi-Year Action Plans provide and ensure a comprehensive agenda with timelines that has to pursue on all relevant for an in coming months. ***Informal gathering at Beijing (China) has created a basis and forum for the developed and developing countries to concentrate the issues in a formal way.***

References:

1. Hazer and Kumar; A Summit for all the people; the Hindu; Chennai; November 11, 2010; P. 13.

2. Shame, P; Globalization and G-20; the Business Standard; New Delhi; November 13, 2010; P. 13.

3. Ibid.

4. G-20 backs gradual currency moves; the Financial Express; New Delhi; November 13; 2010. P.4

5. PM underlines need for balancing Capital Flows; the Business Line; Chennai; November 13, 2010; P.8

6. Norms to identify imbalances by mid-2011; the Hindu; Chennai; November 13, 2010; P. 14

7. G-20 Seoul Summit Document; the Financial Express; New Delhi; November 13, 2010; P. 7.

8. G-20 Summit: Difference of Opinion; the Hindu; Chennai; November 12, 2010; P. 14

9. G-20, agrees not to devalue currency; Times Business; New Delhi; November 15, 2010; P.19

10. Hazer and Kumar; Op cit.

11. Anna, K.A; G-20: The Two Issues; the Hindu; Chennai; November 11, 2010; P. 13.

12. What to watch out for: the Financial Express; New Delhi; November 12, 2010; P. 10

13. Chan and Stolberg; China pledges to shift economy; the New York Times (News Service); New York; November 12, 2010. P. 4

14. G-20 tries to find common ground; Times Business; New Delhi; November 13, 2010; P. 15

15. Lehman, J.P; Save Capitalism from protectionists; the Times of Idea; New Delhi; November 20, 2010. P. 10

16. G-20 still pursues protectionism; the Financial Express; New Delhi; November 9, 2010. P. 8

17. Simon Evenett; Professor of Economics; St. Galen University; Switzerland. November 7, 2010.

18. Global Trade Alert (GTA); Geneva 2010.

19. G-20 Meet in China; Business Line; Chennai; March 31, 2011.

20. Xinfa, Z; Economist, Galaxy Securities; Beijing, China. March 30, 2011.